ENERGY
SAFETY AND POLICY REFORM

VI.

I would like to emphasize that the establishment of the USAID Vilnius office was a very useful step. Close contacts have been maintained between it and the energy institutions. Whenever we needed information or advice or assistance we contacted USAID staff and they never failed to help us.

Vidmantas Jankauskas
Chairman of the Energy Pricing Commission

Viktoras Valentukevičius
Ex-Vice-Minister of Economy

The assistance that the U.S. Government provided to Lithuania during the transition period in working out the legal and economic prerequisites for restructuring the energy sector and the fundamentals of future activities has been extremely useful. I believe that together we have traveled a very important part of the road, and the results achieved to date prove it.

Independence for Lithuania in 1990 set the stage for the country's transformation into a full market economy. However, the energy sector was faced with vast and politically sensitive problems. The energy sector was based on a planned economy and was plagued by excess power generation capacity, high transmission losses, and tariffs set far below actual operating costs. In addition, Lithuania continues to be almost totally dependent on a sole source, Russia, for its imported oil, gas, and nuclear fuel. Further, Lithuania assumed ownership of the Ignalina Nuclear Power Plant, with Soviet style RBMK type reactors, an inherently unsafe plant design. At that time, Lithuania did not have any nuclear safety regulatory capabilities to address serious safety concerns at Ignalina.

USAID assisted the Government of Lithuania with its reform of the energy sector, with activities to improve and update energy policy and nuclear safety. With USAID assistance, Lithuania established the Energy Regulatory Institution and began developing market-oriented energy pricing methodologies. USAID programs also assisted the three Baltic power companies in developing a regional planning approach for addressing energy issues. The Lithuanian Power Company participated in the USAID Utility Partnership Program to improve its accounting, management, customer service, and energy efficiency work. In coordination with other donors, USAID supported implementation of the nuclear safety program. All these activities resulted in a stronger, more progressive energy sector in Lithuania.

Discrete energy sector activities included:

• Energy Pricing Reform: The Government is fostering reforms in the energy sector to create a regulatory environment with incentives for private investment and to provide a low cost, reliable energy supply for its citizens. Price reform and an independent energy regulatory structure are critical elements of this process. Therefore, USAID financed Bechtel International to implement a technical assistance program to support the establishment of the Energy Pricing Commission. Since 1995, USAID has provided direct assistance to strengthen the Commission by focusing on establishing a comprehensive energy policy, implementing transparent energy pricing methodologies, and institutionalizing public participation in the process. Bechtel International provided direct technical advisory services, seminars, study tours, and policy studies.

Under this program, the Commission has developed into a major regulatory institution. It has made considerable progress in rationalizing energy pricing, removing subsidies, bringing prices closer to actual costs, and developing a service-orientation. Its success is further illustrated by the addition of other industries under its administrative regulatory review process. Currently, the Commission is one of the most advanced new regulatory institutions in Central and Eastern Europe. This USAID effort directly supports energy sector privatization initiatives, as well as compliance with EU energy liberalization directives.

• Regional Cooperation and Planning: Regional investment planning is critical for the Baltic countries to help defray the costs of power sector investments and to operate their power generation and distribution systems in a coordinated and more efficient manner, maximizing economies of scale. Regional cooperation is also essential to facilitate a joint approach on major issues, such as eventual closure of the Ignalina Nuclear Power Plant and environmental emissions from the Estonian oil shale power plants.

The Ignalina Nuclear Power Plant

USAID/Lithuania Energy counterparts and implementers at the Energy Seminar, April 2000

It would be difficult to say which of the numerous USAID energy projects has been the most important one, but I am positive that the assistance provided has allowed us to reassess the role of energy, its importance from the viewpoint of macro-economy, and the necessity for natural monopolies in the market economy.

Saulius Kutas
Head of the State Nuclear Safety Inspectorate (VATESI)

Vladas Paškevičius
Deputy Director General of Lietuvos Energija Power Utility Company

The experience that our company gained through the USAID energy program helped us to form a new policy of public relations, including internal information dissemination for employees and electronic communication facilities for providing information to the public.

In 1995, the three Baltic States requested USAID to assist their power utilities to develop a least-cost energy investment planning capability. In response, USAID established the Baltic Regional Energy Development Program. USAID funded Electrotek to provide training in developing these planning capabilities and to demonstrate the advantages of cooperation in power system development. As a result, the Baltic countries established a permanent regional planning group, developed a regional cooperation plan, and developed a program to establish power pooling for the Baltic region. It is anticipated that this plan will not only strengthen the economic viability of the region, but will also attract foreign investment to the power sector.

• Utility Partnership: From 1994 through 1998, there were dramatic changes within the electric power sector. USAID funded the U.S. Energy Association to implement the Utility Partnership Program throughout Central and Eastern Europe. In Lithuania, Lietuvos Energija (the Lithuanian electric utility company) formed a partnership with Alabama Power Company (an electric utility from the U.S.). Through exchange visits and seminars, over 100 managers from Lietuvos Energija gained new skills and perspectives related to electric power utility operations. These managers were key individuals in the transition to a market-oriented economy. One notable result was that Lietuvos Energija established a Customer Service and Sales Department. In addition, Lietuvos Energija created Telecommunications, Economics, and Finance Departments - all key elements leading to the privatization of the power sector. USAID also assisted Lietuvos Energija in developing internationally accepted accounting procedures, which helped improve the financial performance of the company.

• Energy Efficiency: USAID funded implementation of the energy efficiency project that brought together a customer with serious arrearage problems, the Santariskiu hospital, with an energy provider, Lietuvos Energija. This project demonstrated how the power company can work to enhance customer service and help customers find innovate ways to reduce their arrearages. This project also assisted the hospital to reduce its energy costs while improving health care. Widespread implementation of energy efficiency measures has been limited by low tariff structures. As pricing increases during the coming decade, Lietuvos Energija will be poised to move forward with additional energy efficiency programs based on its experience under this USAID program. Project was implemented by Electrotek.

• Nuclear Safety: With independence, Lithuania assumed ownership of the world's largest nuclear power plant. Typical of all Soviet-designed facilities, Ignalina does not meet international design, construction, or operating standards. The poor safety standards, and the resulting risk to the region, prompted the Government of Lithuania to request assistance from the international community. USAID contributed to the Nuclear Safety Account, administered by European Bank for Reconstruction and Development (EBRD), to address immediate operational and technical safety improvements for Soviet-designed reactors. In 1998, a thorough safety analysis of the plant was completed, which identified essential safety improvements. The Nuclear Safety Account funded many of these improvements. The U.S. Government directly funded some operational safety improvements through the U.S. Department of Energy.

In parallel with hardware improvements at Ignalina, USAID funded the U.S. Nuclear Regulatory Commission's technical assistance to its newly created Lithuanian Nuclear Safety Inspectorate, VATESI. This support focused on helping VATESI become a nuclear regulatory body that makes decisions based on international nuclear safety standards. This assistance was a key part of the international effort to support VATESI as it reviewed the license application of Ignalina to continue the operation of Unit 1 beyond 1999.

Ignalina is now the most studied and probably safest RBMK reactor in the world. Although it still does not meet international safety standards and it continues to present a risk to the region, the improvements made to date are significant and clearly demonstrate Lithuania's commitment to the future. During 1999, the Government approved a new National Energy Strategy, which included closure of Ignalina Unit 1 by 2005, with a commitment to identify the Unit 2 closure date by 2004, when the next National Energy Strategy is to be developed. These steps have kept Lithuania on a path leading to membership in the EU.

International Nuclear Safety Advisors Meeting at VATESI

Signing Ceremony for the Utility Partnership Program bringing together the Alabama Power Company and the Lithuanian Power Company

Implementing partners of the USAID Energy Regulatory Assistance Program: the Energy Pricing Commision and Becthel